

Message Text

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ACTION EA-12

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SUBJ: PRICES CONTINUE PRINCIPAL ECONOMIC PROBLEM

REF: (A) SEOUL 5133, (B) SEOUL 4920

SUMMARY: PRICES DOMINATED ECONOMIC POLICY AND DISCUSSION
OVER THE PAST MONTH WITH THE CONSUMER PRICE INDEX PASSING
THE YEAR "LIMIT" OF 10 PERCENT TO 10.3 PERCENT BY THE END
OF JUNE AND REPORTEDLY TO 10.5 PERCENT AT THE END OF THE
FIRST WEEK IN JULY. FOOD AND OTHER COMMODITY ITEMS
CONTINUED TO LEAD TH RISE IN PRICES. MONEY SUPPLY ROSE
5.5 PERCENT IN JUNE AS A RESULT OF AN EXPANSION IN PRIVATE
CREDITS. THE ECONOMY CONTINUES TO BOOM WITH INDUSTRIAL
PRODUCTION UP 6.4 PERCENT IN MAY BUT THE OVERHEATED
CONSTRUCTION SECTOR SEEMS TO BE LEVELING OFF. THE RATE
OF EXPORT GROWTH IS DOWN TO 26.2 PERCENT COMPARED TO A
28.4 PERCENT RATE IN THE FIRST QUARTER. AS A RESULT OF
RAPIDLY GROWING IMPORTS BOTH THE TRADE AND CURRENT
BALANCE SHOWED LARGE DEFICITS FOR THE FIRST HALF BUT
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INCREASING LONG-TERM CAPITAL INFLOWS KEPT FX RESERVES
AT COMFORTABLE LEVELS. END SUMMARY

1. PRICES AND ALL THINGS RELATED THERETO WERE THE
PRINCIPAL ECONOMIC TOPIC THE PAST MONTH. THE CONSUMER
PRICE INDEX PASSED THE 10 PERCENT BENCHMARK IN JUNE TO
REACH 10.3 PERCENT (8.8 PERCENT SEASONALLY ADJUSTED)

SINCE DECEMBER. SINCE JUNE 1977 THE OFFICIAL INDEX SHOWS A 14.6 RISE. AGRICULTURAL PRODUCTS CONTINUED TO LEAD THE PRICE PARADE (RICE, PEPPER, FRUITS, VEGETABLES, FISH) SHOWING A 12 PERCENT GAIN SINCE DECEMBER; BUT HOUSING, CLOTHING AND OTHER ITEMS AS TRANSPORTATION COSTS HAVE ALSO MADE THEIR CONTRIBUTION.

2. WHOLESALE PRICES WERE UP 1.3 PERCENT IN JUNE WITH THE INDEX 7.3 PERCENT OVER DECEMBER LEVELS (TMW PERCENT SEASONALLY ADJUSTED). FOOD PRICES WERE ALSO HERE IN THE FOREFRONT, SHOWING A 15.2 PERCENT INCREASE IN THE FIRST HALF. PART OF THE DISCREPANCY BETWEEN THE RISES IN CONSUMER COMPARED TO THE WHOLESALE INDEX LIES IN THE WEIGHTING, Q WITH NEARLY EQUAL WEIGHTS IN THE CONSUMER INDEX TO ONLY A 28 PERCENT WEIGHT FOR FOOD IN THE WHOLESALE. AS A RESULT THE INFLATIONARY MOVEMENT IS PERCEIVED STRONGER THAN THE AVERAGE CONSUMER THAN IN FACT, ALTHOUGH IN OTHER AREAS CONTROLS RESTRAIN UPWARD PRICE MOVEMENTS.

3. AS A RESULT OF THE "SOARING" COMMODITY PRICES AND RECENT REAL ESTATE SPECULATION SCANDAL, POLITICAL LEADERS AND CABINET MEMBERS MET WITH THE PRESIDENT JULY 13 TO DISCUSS MEASURES TO CURB PERCEIVED EXCESSES IN THESE AREAS. DPM NAM SUBSEQUENTLY ANNOUNCED THAT THE GOVERNMENT WOULD ADOPT A "DRASTICALLY LIBERAL

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TRADE POLICY" BY IMPORTING LARGE AMOUNTS OF DAILY NECESSITIES INCLUDING CORN, BEEF, COAL, SESAME TO BALANCE SUPPLY AND DEMAND. NAM STRESSED THAT THE GOVERNMENT WOULD PLACE PRIORITY ON STABILIZING PRICES IN THE SECOND HALF. ALSO DISCUSSED WERE QUESTIONS ON LIMITING REAL ESTATE OWNERSHIP, CHANGING THE REAL ESTATE TAX STRUCTURE TO CURB SPECULATION AND IMPROVEMENTS IN ASSESSING AND COLLECTING THE VALUE ADDED TAX. MOST OF THESE MEASURES WILL REQUIRE LEGISLATIVE CHANGES. IN RECENT WEEKS THE PRESS--AND OTHER SOURCES--HAVE BECOME CRITICAL OF THE GOVERNMENT'S "INEFFECTIVE" ECONOMIC POLICY.

4. IN FACT, ELSEWHERE DURING MAY AND JUNE THE ECONOMY HAS SHOWN GOOD GAINS. INDUSTRIAL PRODUCTION ROSE 6.4 PERCENT IN MAY (3.8 PERCENT SEASONALLY ADJUSTED) TO REACH A NEW PEAK AND NOW STANDS AT 27 PERCENT OVER MAY 1977 LEVELS. ESPECIALLY STRONG IN THE FIRST FIVE MONTHS WERE PRODUCTION OF MACHINERY (UP 44 PERCENT), PRIMARY METALS (35 PERCENT), WOOD PRODUCTS (24 PERCENT) AND CHEMICALS (23.8 PERCENT). CONSTRUCTION ACTIVITIES REMAINED AT A HIGH LEVEL IN MAY, ALTHOUGH A DEFINITE LEVELING, ESPECIALLY

IN HOUSING, IS NOW APPARENT. FOR THE FIRST FIVE MONTHS THE NUMBER OF CONSTRUCTION PERMITS WAS UP 73.8 PERCENT (77.8 PERCENT FOR HOUSING) OVER THE SAME PERIOD IN 1977, DOWN FROM THE NEAR 100 PERCENT FIGURES OF THE FIRST QUARTER. PRELIMINARY FIGURES FOR JUNE SHOW FURTHER DECELERATION.

5. THE MONEY SUPPLY JUMPED 5.5 PERCENT (4.8 PERCENT SEASONALLY ADJUSTED) IN JUNE OVER MAY AND IS NOW 5.6 PERCENT ABOVE DECEMBER 77 AND 32.2 PERCENT OVER JUNE-77 LEVELS. THE PRIVATE DOMESTIC SECTOR HAS LED THE INCREASES IN MONEY SUPPLY TO DATE IN 1978 SHOWING A 55.3 PERCENT JUMP SINCE DECEMBER. (NET DOMESTIC CREDIT IS UP 24.1 PERCENT DURING THE SAME PERIOD.) ON THE OTHER HAND, UNCLASSIFIED

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TOTAL SAVINGS, WHICH HAD SHOWN LARGE ADVANCES IN THE FIRST QUARTER, HAVE LEVELED OFF SINCE APRIL AND NOW SHOW A 22.6 PERCENT INCREASE SINCE DECEMBER BUT REMAIN AT 50.7 PERCENT OVER JUNE 1977. SAVINGS DEPOSITS SHOW A 21 PERCENT GAIN DURING THE FIRST SIX MONTHS WITH NON-ANK SAVINGS UP 23 PERCENT. TO DATE THE RISE IN INTEREST RATES ANNOUNCED JUNE 13 HAVE NOT RESULTED IN ANY SUBSTANTIAL INCREASES IN DEPOSITS, ALTHOUGH A SMALL UPTREND HAS BEEN NOTED. (MORE) GLEYSTEN

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6. COMMODITY EXPORTS IN JUNE WERE \$1,052 MILLION (\$931 MILLION SEASONALLY ADJUSTED) UP 3.8 PERCENT OVER MAY AND 26.2 PERCENT OVER THE FIRST HALF OF 1977. LIGHT INDUSTRIAL PRODUCTS, ESPECIALLY TEXTILES, CONTINUE TO DOMINATE THE EXPORT MARKET WITH TEXTILE EXPORTS UP A SURPRISINGLY 27.5 PERCENT IN THE FIRST HALF OVER THE CORRESPONDING PERIOD IN 1977. FOOTWEAR HAS ALSO SHOWN STRONG GAINS (UP 36 PERCENT). IN FACT, THESE TWO ITEMS COMPRISE NEARLY 38 PERCENT OF THE TOTAL EXPORTS OF \$5,703 MILLION SHIPPED IN THE FIRST SIX MONTHS. ON THE OTHER HAND, LARGE PERCENTAGE GAINS WERE REGISTERED BY MACHINERY (51 PERCENT), IRON AND STEEL PRODUCTS (42 PERCENT) AND CHEMICALS (41.5 PERCENT). LAGGARDS HAVE BEEN ELECTRONICS (14.8 PERCENT) AND PLYWOOD (2.8 PERCENT). L/C ARRIVALS IN JUNE AT \$892 MILLION (\$868 MILLION SEASONALLY ADJUSTED) WERE DOWN 1.3 PERCENT OVER MAY BUT SHOW AN 18.8 PERCENT GAIN OVER THE FIRST HALF OF 1977.

7. IMPORTS CONTINUED STRONG IN JUNE, RISING TO ANOTHER RECORD HIGH OF \$1,277 MILLION (\$1,132 MILLION SEASONALLY ADJUSTED) OR 6 PERCENT OVER MAY AND 26 PERCENT OVER THE FIRST HALF OF LAST YEAR. ALTHOUGH DOWN BY 0.2 PERCENT OVER UNCLASSIFIED

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MAY IMPORT LICENSES REMAINED AT NEAR RECORD LEVELS (\$1,150 MILLION) AND SHOW A STRIKING 46.5 PERCENT GAIN OVER THE FIRST HALF OF 1977. LARGEST GAINS IN IMPORTS FOR THE FIRST SIX MONTHS WERE PRECISION MACHINERY (UP 52.2 PERCENT), DIRECT CONSUMER GOODS (48.2 PERCENT), MACHINERY (40.4 PERCENT), AND IRON AND STEEL (39.9 PERCENT). WHILE THE GROWTH RATE OF DIRECT CONSUMER GOODS IS DEMONSTRATING GOOD GROWTH, THEY AMOUNT TO ONLY 2.5 PERCENT OF TOTAL IMPORTS COMPARED TO 59.5 PERCENT FOR INDUSTRIAL RAW MATERIALS, INCLUDING PETROLEUM.

8. THE RAPID GROWTH IN IMPORTS, DUE TO SOME EXTENT TO YEN REVALUATION RESULTING IN HIGHER COSTS FOR JAPANESE ORIGIN IMPORTS, HAS CAUSED A DETERIORATION IN THE TRADE BALANCE TO A \$602 MILLION DEFICIT FOR THE FIRST SIX MONTHS COMPARED TO \$519 MILLION FOR THE FIRST HALF OF 1977. DESPITE INCREASING INFLOWS OF INVISIBLE RECEIPTS THE CURRENT BALANCE DEFICIT INCREASED TO \$268 MILLION COMPARED TO \$233 MILLION A YEAR AGO. HOWEVER NET LONG-TERM CAPITAL INFLOWS OF \$836 MILLION RESULTED IN A BASIC BALANCE OF \$568 MILLION FOR THE FIRST HALF. NET SHORT-TERM CAPITAL OUTFLOWS FOR THE FIRST HALF WERE AT \$1,164 MILLION. FOREIGN EXCHANGE RESERVES IN JUNE INCREASED BY \$91 MILLION AND NOW STAND AT \$4,193 MILLION OR A DROP OF \$114 MILLION SINCE DECEMBER.

9. COMMENT TO FOLLOW BY SEPTTEL.
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